

**REGIONAL TRANSIT AUTHORITY (REGION III)  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2013**

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REGIONAL TRANSIT AUTHORITY (REGION III)  
OFFICIALS  
JUNE 30, 2013

EXECUTIVE DIRECTOR ..... Hugh Lively

BOARD OF DIRECTORS

Officers:

Chairperson .....	Burlin Matthews
Vice Chairperson .....	Al Bloemendaal
Secretary-Treasurer .....	Ed Noonan

Board Members:

Buena Vista County .....	Dale Arends
Clay County .....	Burlin Matthews
Dickinson County .....	Bill Leupold
Emmet County .....	Tim Schumacher
Lyon County .....	Merle Koedam
O'Brien County .....	Dan Friedrichsen
Osceola County .....	Mike Schulte
Palo Alto County .....	Ed Noonan
Sioux County .....	Al Bloemendaal

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Regional Transit Authority (Region III)  
Spencer, IA 51301

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Regional Transit Authority (Region III), Spencer, Iowa, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Regional Transit Authority (Region III) as of June 30, 2013 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information included in the schedule of program expenses, schedule of administrative expenses, and the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2013, on our consideration of Regional Transit Authority's (Region III) internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Regional Transit Authority's (Region III) internal control over financial reporting and compliance.

Wintner, Starn & Co., LLP

December 30, 2013

REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF FINANCIAL POSITION  
JUNE 30, 2013

## ASSETS

## Current Assets:

Cash .....	\$ 709,480
Accounts receivable - net of allowance for doubtful accounts of \$1,500 .....	106,937
Governmental receivables .....	48,297
Inventory .....	5,180
Prepaid expense .....	<u>44,055</u>
Total Current Assets	<u>913,949</u>

Property and equipment .....	6,270,473
Less accumulated depreciation .....	<u>(4,534,822)</u>
Property and Equipment - Net	<u>1,735,651</u>

TOTAL ASSETS	<u>\$2,649,600</u>
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## LIABILITIES AND NET ASSETS

## Current Liabilities:

Accounts payable .....	\$ 39,724
Accrued expenses .....	74,741
Accrued vacation .....	<u>34,128</u>
Total Current Liabilities	<u>148,593</u>

## Net Assets:

## Unrestricted:

Undesignated .....	3,191
Board designated .....	<u>762,165</u>
Total Unrestricted Net Assets	765,356
Temporarily restricted .....	<u>1,735,651</u>

Total Net Assets	<u>2,501,007</u>
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TOTAL LIABILITIES AND NET ASSETS	<u>\$2,649,600</u>
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REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>
PUBLIC SUPPORT AND REVENUES:			
Operating grants .....	\$ 933,390		\$ 933,390
Capital grants .....		\$ 8,654	8,654
Local operating .....	123,267		123,267
Local capital .....	49,156		49,156
Contract services .....	702,652		702,652
Non-contract special services .....	47,134		47,134
Fares .....	159,533		159,533
Fuel tax refunds .....	13,993		13,993
In-kind revenue .....	417,118		417,118
Investment income .....	1,543		1,543
Gain on disposal of equipment .....		12,756	12,756
Miscellaneous income .....	<u>153</u>		<u>153</u>
TOTAL PUBLIC SUPPORT AND REVENUES	<u>2,447,939</u>	<u>21,410</u>	<u>2,469,349</u>
EXPENSES:			
Program .....	1,422,457		1,422,457
Administrative .....	661,850		661,850
In-kind expense .....	417,117		417,117
Provision for depreciation .....	<u>906</u>	<u>458,110</u>	<u>459,016</u>
TOTAL EXPENSES	<u>2,502,330</u>	<u>458,110</u>	<u>2,960,440</u>
DECREASE IN NET ASSETS	(54,391)	(436,700)	(491,091)
NET ASSETS AT BEGINNING OF YEAR .....	<u>819,747</u>	<u>2,172,351</u>	<u>2,992,098</u>
NET ASSETS AT END OF YEAR	<u>\$ 765,356</u>	<u>\$1,735,651</u>	<u>\$2,501,007</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Decrease in net assets .....	\$ (491,091)
Adjustments to reconcile the decrease in net assets to net cash provided by operating activities:	
Depreciation .....	459,016
Gain on disposal of equipment .....	(12,756)
Changes in assets and liabilities:	
Decrease in accounts receivable .....	77,999
Decrease in government receivables .....	123,726
Decrease in inventory .....	254
Increase in prepaid expense .....	(22,389)
Decrease in accounts payable .....	(45,682)
Decrease in accrued expenses .....	(2,089)
Decrease in accrued vacation .....	<u>(10,005)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>76,983</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of property and equipment .....	(22,316)
Proceeds from sale of equipment .....	<u>12,756</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(9,560)</u>
NET INCREASE IN CASH	67,423
CASH BEGINNING OF YEAR .....	<u>642,057</u>
CASH END OF YEAR	<u>\$ 709,480</u>



REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Regional Transit Authority (Region III), doing business as RIDES, is a not-for-profit organization based in Spencer, Iowa, with offices in and services provided to a nine county area of Northwest Iowa. It is a regional transit authority which provides transportation services to the public in their area through assistance from federal, state, and local funds. The Regional Transit Authority is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and a similar section of the Iowa income tax law, which provides tax exemption for corporations organized exclusively for religious, charitable, or educational purposes.

**Basis of Accounting**

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America.

Grant and contract revenue is recognized when earned. The grants and contracts are written on an expenditure reimbursement basis and, accordingly, grant and contract revenue is earned when allowable program expenditures are incurred.

**Basis of Presentation**

Net assets and revenues, expenses, and gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Authority and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets - Subject to donor-imposed stipulations that may be fulfilled by actions of the Authority to meet the stipulations or become unrestricted at the date specified by the donor.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Revenues that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. Expenses, other than depreciation on temporarily restricted net assets, are reported as decreases in unrestricted net assets. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

**Management's Review**

The Authority has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

**Cash and Cash Equivalents**

Cash includes amounts in demand deposit accounts and money market funds.

For purposes of the statement of cash flows, the Authority considers all highly-liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Accounts and Governmental Receivables**

Reimbursement procedures used for grants and contracts may result in timing differences between program reimbursements and expenditures. Receivables from grantor agencies represent an excess of expenditures over reimbursements at year end and are considered entirely collectible.

The Authority grants credit to local organizations for services in the area. Accounts receivable are stated at the amount management expects to collect from outstanding balances. An allowance for doubtful accounts is provided based on management's evaluation of potential uncollectible accounts receivable at year end. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. Changes in the valuation allowance have not been material to the financial statements.

**Inventory**

Inventory is valued at the lower of cost or market. Cost is determined on the first-in, first-out basis.

**Property and Equipment**

Property and equipment is stated at historical cost or estimated cost if actual historical cost is not available. Donated property and equipment is valued at estimated fair value on the date of donation. Depreciation has been provided using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 40 years. Expenditures for maintenance, repairs, and minor replacements are charged to the current year, while the cost of major replacements and betterments is capitalized.

**Compensated Absences**

Employees of the Authority accumulate a limited amount of earned but unused vacation payable to employees. This liability has been computed based on rates of pay in effect at June 30, 2013.

**Advertising and Promotion**

Advertising and promotion expenditures are charged to operations as incurred.

**Board Designated Net Assets**

The governing board designated that \$762,165 be reserved at June 30, 2013 for equipment replacement. The funds are reserved at the rate of \$.07 per mile driven, except when subcontracting the rate is only \$.02 per mile driven. The Authority also reserves their share of funds received from the sale of equipment and from local contributions designated by the governing board for capital.

The board has the authority to reverse its decision to designate the cash for equipment replacement; therefore, the designated cash is included as a current asset.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Temporarily Restricted Net Assets**

Substantially all property and equipment is acquired with grant proceeds and is restricted for use in public transit. If the assets are sold before the end of their useful life, the percentage of the proceeds equal to the proportion of original grant funding must be returned to the grantor if the purchaser is not another transit agency. The net property and equipment balance of \$1,735,651 is recorded as temporarily restricted net assets.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increase and decrease in net assets from operations during the period. Actual results could differ from those estimates.

**2. CASH AND POOLED INVESTMENTS**

The Authority's deposits in banks at June 30, 2013 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**3. PROPERTY AND EQUIPMENT**

Property and equipment activity for the year ended June 30, 2013 was as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Land .....	\$ 39,164			\$ 39,164
Building .....	1,380,098			1,380,098
Transportation equipment .....	3,854,296	\$ 18,776	\$128,130	3,744,942
Shop equipment .....	53,418			53,418
Furniture and fixtures .....	1,049,311	3,540		1,052,851
Total	<u>6,376,287</u>	<u>22,316</u>	<u>128,130</u>	<u>6,270,473</u>
Less accumulated depreciation for:				
Building .....	405,669	38,097		443,766
Transportation equipment .....	2,722,963	411,755	128,130	3,006,588
Shop equipment .....	50,959	1,327		52,286
Furniture and fixtures .....	1,024,345	7,837		1,032,182
Total accumulated depreciation	<u>4,203,936</u>	<u>459,016</u>	<u>128,130</u>	<u>4,534,822</u>
Property and Equipment - Net	<u>\$2,172,351</u>	<u>\$(436,700)</u>	<u>\$</u>	<u>\$1,735,651</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**4. GOVERNMENT ASSISTANCE**

During the year ended June 30, 2013, the Authority received federal, state, and local government support for the purpose of providing transportation services for the general public. Grants included in income were as follows:

Federal:		State:	
Section 5311 operating	\$541,515	Operating	<u>\$384,151</u>
Training reimbursement	1,309		
Section 5311 capital	8,654	Local:	
Section 5317 operating	<u>6,415</u>	Local operating	\$123,267
		Local capital	<u>49,156</u>
	<u>\$557,893</u>		<u>\$172,423</u>

**5. IN-KIND REVENUE AND EXPENSE**

The Authority contracts with cities to provide intra-city transportation services. The in-kind revenue and expense amount of \$417,118 does not represent funds received or expended by the Authority. The amounts represent program revenues and expenses incurred by the contracting cities in excess of the contract amounts and have been included in this report to show the total income and cost of the program.

**6. PENSION AND RETIREMENT BENEFITS**

**Iowa Public Employees Retirement System**

The Authority contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary, and the Authority is required to contribute 8.67% of covered salary. Contribution requirements are established by state statute. The Authority's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$84,295, \$79,345, and \$63,022, respectively, equal to the required contributions for each year.

REGIONAL TRANSIT AUTHORITY (REGION III)  
NOTES TO FINANCIAL STATEMENTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**7. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The Authority operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 active and no retired members in the plan. Participants must be age 55 or older and meet certain other requirements at retirement. Benefits terminate upon attaining Medicare eligibility. Coverage is provided through a fully-insured plan. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees, which results in an implicit subsidy. It is anticipated retiree premiums will be fully offset by monthly contributions.

**8. RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance purchased from independent third parties. The Authority assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage for the past three years.

## **SUPPLEMENTAL INFORMATION**

REGIONAL TRANSIT AUTHORITY (REGION III)  
 SCHEDULE OF PROGRAM EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2013

Advertising and promotion .....	\$ 3,413
Contract services .....	50,213
Payroll taxes and employee benefits .....	228,040
Repairs and maintenance .....	70,151
Fuel and oil .....	303,713
Insurance .....	91,451
Rent .....	9,090
Utilities .....	1,424
Salaries and wages .....	622,323
Office supplies and printing .....	355
Subscriptions, dues, and licenses .....	158
Travel and training .....	2,963
Service agreements .....	35,350
Physicals .....	3,600
Uniforms .....	<u>213</u>
 TOTAL PROGRAM EXPENSES	 <u>\$1,422,457</u>

REGIONAL TRANSIT AUTHORITY (REGION III)  
 SCHEDULE OF ADMINISTRATIVE EXPENSES  
 FOR THE YEAR ENDED JUNE 30, 2013

Advertising and promotion .....	\$ 7,568
Payroll taxes and employee benefits .....	123,971
Repairs and maintenance .....	11,532
Fuel and oil .....	4,273
Insurance .....	60,102
Rent .....	1,214
Utilities .....	35,341
Miscellaneous .....	1,369
Salaries and wages .....	342,736
Office supplies and printing .....	11,556
Professional fees .....	15,675
Travel and training .....	4,165
Service agreements .....	34,749
Uniforms .....	250
Subscriptions, dues, and licenses .....	<u>7,349</u>
 TOTAL ADMINISTRATIVE EXPENSES	 <u>\$ 661,850</u>



REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2013

<u>Grantor/Program</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Program Expenditures</u>
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Formula Grants for other than			
Urbanized Areas:			
Section 5311 .....	20.509	18-0030-030-11	\$ 541,515
Training reimbursement .....	20.509	Various	1,309
ARRA - Section 5311 .....	20.509	86-0001-030-09	<u>8,654</u>
Total CFDA #20.509			<u>551,478</u>
 New Freedom Program:			
Section 5317 .....	20.521	57-X008-030-12	<u>6,415</u>
 TOTAL			<u>\$ 557,893</u>

**Basis of Presentation** - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the Regional Transit Authority (Region III) and is presented in conformity with the accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

**WINTHER, STAVE & CO., LLP**  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of the  
Regional Transit Authority (Region III)  
Spencer, IA 51301

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Regional Transit Authority (Region III) (a nonprofit organization), as of and for the year ended June 30, 2013, and the related notes to the financial statements, and have issued our report thereon dated December 30, 2013.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Regional Transit Authority's (Region III) internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified a certain deficiency in internal control we consider to be a material weakness.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item II-A-13 to be a material weakness.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Regional Transit Authority's (Region III) financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Regional Transit Authority's (Region III) Response to Findings**

Regional Transit Authority's (Region III) response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Regional Transit Authority's (Region III) response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Wenther, Starn & Co., LLP*

December 30, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE AND ON THE SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of the  
Regional Transit Authority (Region III)  
Spencer, IA 51301

**Report on Compliance for the Major Federal Program**

We have audited Regional Transit Authority's (Region III) compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on Regional Transit Authority's (Region III) major federal program for the year ended June 30, 2013. Regional Transit Authority's (Region III) major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditors' Responsibility**

Our responsibility is to express an opinion on compliance for Regional Transit Authority's (Region III) major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Regional Transit Authority's (Region III) compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the Authority's major federal program. However, our audit does not provide a legal determination of the Authority's compliance.

## Opinion on the Major Federal Program

In our opinion, the Regional Transit Authority (Region III) complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

## Report on Internal Control Over Compliance

Management of Regional Transit Authority (Region III) is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Regional Transit Authority's (Region III) internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Regional Transit Authority's (Region III) internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control over compliance we consider to be a material weakness.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item III-A-13 to be a material weakness.

Regional Transit Authority's (Region III) response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Regional Transit Authority's (Region III) response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Wintner, Starn & Co., LLP

December 30, 2013

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2013

**Part I: Summary of the Independent Auditors' Results**

- (a) An unmodified opinion was issued on the financial statements.
- (b) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.
- (d) A material weakness in internal control over the major program was disclosed by the audit of the financial statements.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was Formula Grants for Other than Urbanized Areas, CFDA Number 20.509.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) Regional Transit Authority (Region III) did not qualify as a low-risk auditee.

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**Part II: Findings Related to the Financial Statements**

**Internal Control Deficiency:**

II-A-13 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Responsibility for the custody, record-keeping, and reconciling functions of revenues and expenses should be assigned to different employees.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the Regional Transit Authority (Region III) should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives to segregate duties where possible and will establish review procedures where complete segregation is not feasible.

Conclusion - Response accepted.

**Instances of Noncompliance:**

No matters were reported.

REGIONAL TRANSIT AUTHORITY (REGION III)  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
FOR THE YEAR ENDED JUNE 30, 2013

**Part III: Findings and Questioned Costs for Federal Awards**

**Instances of Noncompliance:**

No matters were reported.

**Internal Control Deficiency:**

CFDA Number 20.509: Formula Grants for Other than Urbanized Areas

U.S. Department of Transportation, pass through the Iowa Department of Transportation

III-A-13 Segregation of Duties Over Federal Revenues - The Authority did not properly segregate custody, record-keeping, and reconciling functions for revenues and expenses, including those related to its federal program. See item II-A-13.